

United States House of Representatives
Committee on Small Business
Subcommittee on Investigations and Oversight
Hearing
The Impact of Energy Policy on Small Business
August 25, 2009
Tulsa, Oklahoma

Written Comments of David W. House

Jireh Resources LLC is a small start-up exploration and production company. My partners and I have decades of experience in this business and the energy policy of the United States will have major impact on our ability to succeed and even survive as we begin this new venture.

Let me begin by saying that all government policy has substantial impact on small business. We are so easily swept away by the winds of change that seem to be the soup de jour of government today. While faceless bureaucrats question the need for our industry and elected representatives feel compelled to churn the waters of law and regulation, small companies are tossed about in a never never land of changes that ignore our needs and the impact of such change on our livelihood and our families.

Our role in society is to deploy capital effectively and efficiently and provide energy resources to our nation while providing jobs for our employees, tax payments to our state and nation and to care for the land and environment as we do our job. We proudly say that while not perfect, we meet those goals in the best way possible and do substantially better jobs than most governmental agencies in meeting our mission.

I will turn to energy specifically and visit about the problems and opportunities that we see going forward for our nation. It is commonly understood by those in our industry that our nation has not had a viable energy policy, ever. So it is without picking on either political party that independent producers wonder how energy policy gets talked about often, but nothing is ever done to put us on a secure energy footing, including encouraging domestic energy exploration.

The current administration stresses the green energy solution. While a laudable goal, reality must set in at some point in time. There are varying estimates, but most would agree that all the wind and solar energy available today is less than two percent (2%) of our national energy supply. If we annually add all the green energy we have produced to date over the last 25 years, which is clearly a fiction waiting to be written, it would take us 15 years to get to one-third of our energy needs from green sources, and that is assuming no growth in our energy needs. The cost to develop this green energy will be hundreds of billions if not trillions of dollars. If we grow all the green energy we can, it is still nothing but a blip on the screen and a footnote in our energy future for decades to come.

If we have never had a viable policy and the current proposal is not a realistic solution what alternatives do we have? Frankly, until the last few years I have not been hopeful about our future. Let me digress for a moment and comment on a social phenomenon I have noticed. There is a severe lack of understanding of the history and current importance energy plays in our nation. Few realize or acknowledge the core role energy plays in our economy, our defense and our daily lives. We won WWII in large part because the German panzers ran out of fuel. We could not defeat the Japanese because we could not keep our ships and men in fuel. Thus we had to drop the bomb. We are currently in our second Middle East conflict to maintain some semblance of peace in the world's most prolific hydrocarbon producing region. Energy is the core value in a growing economy and key to our national defense. We must begin to give it the importance it deserves in our past and in our future.

We have been blessed as a nation with a domestic energy supply that is abundant, relatively inexpensive and environmentally acceptable to all but the most radical naysayers. That supply is of course natural gas. It is safe, domestic and abundant. We must seize the opportunity that we have been afforded and fully develop our natural gas reserves and markets. The updated estimates indicate over 2,000 tcf is available under current economic standards. That is up more than 33% in just two years. We have decades of available supply of this domestic transportation fuel that directly offsets imported oil.

Just for the record, everyone who is paying attention already knows, but the increase in supply is due to the improved technology that has made shale gas economically recoverable. Its existence was known for decades, but getting it out of the ground has always been the challenge. These vast quantities of hydrocarbon bearing source rock can now be directly exploited in order to extract the natural gas.

So let me briefly set out a national energy policy. It has very few moving parts and great benefit for the nation. First of all instead of mandating MPG which does nothing except upset the natural curve of the market, mandate that all new government vehicles (state and federal) will be fueled by compressed natural gas (CNG). The technology to use CNG as a transportation is old school. It is used around the world and the technology will only get better when there is a growing market for its use. Phase in the requirement over 36 months to give the car manufacturers time to change their fuel systems and service station owners time to add CNG pumps. At the same time begin a low level phase in of private fleets to be CNG fueled and provide tax credits needed to stimulate the demand to buy them. It is much smarter to give someone \$4500 to buy a new CNG car than pay him \$4500 for a heap of junk. The goal is to have all fleets and a substantial portion of our private vehicles utilizing CNG for fuel over the next decade.

Let me clearly say the goal is not to put producers and refiners of oil out of business, but rather give us a viable alternative to imported oil. Domestic production of oil and natural gas will be part of our energy portfolio for decades to come. Neither is the goal to bypass wind and solar nor nuclear for that matter. We will need all available energy sources for decades to come. We need a clear policy that favors domestic energy supply and at the same time protects us from the potential of price spikes caused by disruptions around the world. The only current way to do this is aggressively promote the drilling, production and transportation market for natural gas.

The purposeful migration to CNG as a significant portion of our transportation fuel accomplishes many goals. First, it stimulates domestic drilling. Domestic drilling creates American jobs, royalty owner payments and states severance taxes. Those workers and royalty owners pay taxes on all their income. Second, this policy stimulates new jobs in the fueling industry and in the pipeline industry. These new jobs will be American workers paying taxes here, not overseas. Third, CNG as a fuel cuts pollution by half versus gasoline. CNG fueled engines operate with significantly fewer oil changes and last for more miles. Fourth, for every mile driven on CNG we drive one less mile on imported crude oil. This reduces our massive payments to foreign governments. If we are able to reverse our massive imbalance of trade it will help with the pending inflation and devaluation of the dollar that we currently face. It is the right energy policy at the right time.

In addition to creating demand, we need to be sure we don't kill the supply at the same time. There are those who think ending all domestic hydrocarbon energy production is a worthwhile goal. They live in a make believe world of no need for serious transportation of goods, services and people. They would live in a world that has no plastic, no medicine, no carpet, no rubber, no computers, no electricity and no indoor plumbing. If that is the world they want to live in I encourage them to consider some other nation to live in. I want to live in a nation that has reasonably priced environmentally responsible and domestically available energy from a variety of sources to help us accomplish our goals.

Current energy policy proposals stray off into two main areas at this time, tax and environmental. The tax code relative to oil and gas has remained essentially the same for decades. The tax treatment of hydrocarbon production is a cornerstone of our business and for decades has recognized the unique risk and challenges of exploring for and producing energy. Current proposed tax increases are specifically pointed at the independent exploration and production industry. They are designed to reduce the number of wells drilled in the US. It might be worth noting for the record that independents currently drill over 80% of the domestic wells every year, so these proposals strike at the heart of the domestic industry. Why a policy maker would think increased reliance on a hostile foreign nation for the single most critical element of the

economy and our defense is a good policy is beyond comprehension of a rational person.

The first proposal is repealing the expensing of intangible drilling costs. This provision has been in the tax code for decades. It recognizes the high risk nature of our business and the utter worthlessness of costs incurred in drilling a well, after the well is drilled. The value of the well is in the rock, not the drilling. Changing this key tax provision will substantially reduce capital available to a capital intensive industry. It is independents that must go outside our companies and raise capital and independents that drill most of the wells.

The second proposal is changing the method of calculating the deduction for depletion. As you are aware, the tax code has had more schemes for calculating depreciation than Carter has pills. Depletion is the same calculation for underground reserves as depreciation is for buildings and other assets. Again for decades smaller independents have had a methodology for depletion calculation referred to as percentage depletion. It is a method the industry has relied upon for part of the formula of capital attraction given the high risk nature of the business. This proposed change would reduce available capital and cause fewer wells to be drilled

Another very important existing law is the exemption from passive loss rules for working interest owners. The current proposal removes this exemption for the passive loss rules. While operators of wells have the primary function of day to day care of the wells, all working interest owners have the obligation to their interest for due care and concern of proper operation, lease maintenance, accounting, marketing and a variety of issues. A working interest owner in a well is vastly different than being a passive owner in an apartment house or a stockholder in a public company. The proposal to do away with this long standing exemption from the passive loss rules would cause substantial capital to flee our industry.

As we turn to the environmental front there is a major change that has been bandied about as helpful to the environment. It is the prohibition of hydraulic fracturing. The fear mongering that environmentalists enter into is not based in fact nor science but emotion. It seems like it should be bad so it must be bad. The truth and the science is that hydraulic fracturing does not in any way impact the water supply, it does not ruin water wells and it does not hurt aquifers. This has been studied by the EPA and former EPA chief, now environmental czar Carol Browner when head of the EPA agreed that hydraulic fracturing was not harmful the water supply or aquifers. The banning of hydraulic fracturing would make the production of shale gas impossible and take us back twenty years in technology. It would make trillions of cubic feet of natural gas inaccessible and would make meeting our energy needs from domestic supply

unobtainable. This proposal would starve this nation of critically needed domestic production and put us at greater risk than any time in our history.

There are a host of other problems small business faces as we tangle with the federal government in trying to fulfill our mission. They range from drilling permit requests sitting on BLM desks for months without action to the refusal of the BLM to issue leases on offshore lands that have been legitimately leased, increased environmental regulations, OSHA rules and the list goes on. My purpose here today is only to address the newly proposed changes that adversely impact us as a small exploration and production company and our industry specifically.

There are other current onerous proposals which negatively impact our industry and nation. Cap and trade will cripple America as we struggle to compete in the world market. Tax increases will take money out of drilling and put it in superfluous social programs and make American companies pay some of the highest taxes in the world. Health care changes that will serve to ration health care and cost business more money and massive deficits will invade the capital markets and make it substantially more expensive to borrow money and cause substantial inflation. This country is headed to second class status faster than the bullet trains the Congress would like to build. The degradation is based in excess taxation and regulation coupled with trying to borrow and spend our way out of debt. A student of history will know that this is a treacherous and unobtainable path.

Thank you for the invitation to testify before the subcommittee and for your patience in listening today.

David House

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Jireh Resources LLC 2009

Jireh is a start-up exploration and production company. We are focused on oil exploration in the Mid-Continent area of the United States. I am President and CFO of Jireh.

Primary Natural Resources, Inc. 2000-2008

As president of Primary I was responsible for overall management of the company as well as the specific management of the banking, accounting, marketing and administration.

El Paso Natural Gas/Energy Services Group 1996-2000

I was the senior vice-president for the Mid-Continent region in charge of purchasing and marketing of approximately 400,000 mcf/d of natural gas. El Paso closed the Mid-Continent region office in 1998 and Energy Services Group took most of the supply and market and continued the business until 2000.

Samson Resources Company 1979-1996

I held a number of increasing responsibility positions related to accounting, administration and product marketing for Samson. In 1986 I became President of Premier Gas Company a wholly owned gas marketing company. In 1996 Premier was sold to El Paso and I remained with Premier.

Arthur Young & Co. 1974- 1979

Staff auditor specializing in audits of oil and gas companies.

Professional and Education

BS in Accounting, Harding University 1974

Certified Public Accountant

Past Chairman and current Board Member of Oklahoma Independent Petroleum Association

Past President of Natural Gas Association of Oklahoma

Current Membership Chairman of OIPA

Married for 35 years to Donnita C. House

Two adult children



HOUSE COMMITTEE ON SMALL BUSINESS

Witness Disclosure Statement

Required by House Rule XI, Clause 2(g)

Your Name: <u>David W. House</u>		
1. Are you testifying on behalf of a Federal, State, or Local Government entity?	YES	<u>NO</u>
2. Are you testifying on behalf of an entity other than a Government entity?	<u>YES</u>	NO
3. Other than yourself, please list what entity or entities you are representing: <u>Jirga Resources LLC</u>		
4. Please list any offices or elected positions held or briefly describe your representational capacity with the entities disclosed in question 3. <u>PRESIDENT</u>		
<i>(For those testifying on behalf of a Government entity, ignore these questions below)</i>		
5. a) Please list any Federal grants or contracts (including subgrants or subcontracts), including the amount and source (agency) which <u>you</u> have received and/or been approved for since October 1, 2006: <u>NONE</u>		
b) If you are testifying on behalf of a non-governmental entity, please list any federal grants or contracts (including subgrants or subcontracts) and the amount and source (agency) received by the <u>entities listed under question 3</u> since October 1, 2006, which exceeded 10% of the entities' revenues in the year received: <u>NONE</u>		
6. If you are testifying on behalf of a non-governmental entity, does it have a parent organization or an affiliate who you specifically do not represent? If so, list below:	YES	<u>NO</u>

Signature: David W. House

Date: 8/19/09